

This record is a partial extract of the original cable. The full text of the original cable is not available.

210916Z Feb 02

2002HOCHI00154 - UNCLASSIFIED

UNCLASSIFIED PTQ1416

PAGE 01 HO CHI 00154 01 OF 02 210957Z
ACTION EAP-00

INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	ITCE-00
	DOPE-00	SRPP-00	EB-00	EXME-00	E-00	FAAE-00	FBIE-00
	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01
	L-00	VCE-00	AC-01	NSAE-00	NSCE-00	OES-01	OMB-01
	OPIC-01	PC-01	ACE-00	SP-00	SSO-00	SS-00	STR-00
	TEST-00	TRSE-00	USIE-00	EPAE-00	DRL-02	G-00	NFAT-00
	SAS-00	/010W					

-----69B4A3 210957Z /38

FM AMCONSUL HO CHI MINH CITY
TO SECSTATE WASHDC PRIORITY 5998
INFO AMEMBASSY HANOI
AMEMBASSY BANGKOK
AMEMBASSY PHNOM PENH
AMEMBASSY VIENTIANE
USDOC WASHDC
USDA WASHDC

UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 000154

SIPDIS

STATE PASS TO USTR FOR EBRYAN
USDOC FOR 3132/OIO/EAP/KELLEHER
USDOC FOR 1431/MAC/AP/HPPHO
USDA FOR FAS/FAA AND FAS/FFPD

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [ETRD](#) [VM](#) [SOE](#)

SUBJECT: STATE ENTERPRISES GROW, FDI FLOPS IN CAN THO

1. SUMMARY: CAN THO, THE MEKONG DELTA'S ECONOMIC AND COMMERCIAL HUB, IS HUNGRY FOR FOREIGN INVESTMENT, SAY LOCAL OFFICIALS, BUT THE CITY'S POOR TRANSPORTATION LINKS AND STRING OF FAILED FOREIGN PROJECTS SUGGEST REAL DIFFICULTIES IN DEVELOPING AN ECONOMY BASED ON FDI. THE PROVINCE SEEMS TO HAVE FOUND EASIER SUCCESS WITH STATE-OWNED ENTERPRISES (SOES) IN GENERATING EXPORT AND OVERALL ECONOMIC GROWTH. WHETHER RELIANCE ON SOES WILL RESULT IN SUSTAINABLE GROWTH IS OPEN TO QUESTION.

STRONG ECONOMIC GROWTH

2. CAN THO PROVINCE, WITH A THRIVING SEAFOOD INDUSTRY AND A STRONG AGRICULTURAL BASE, IS THE ECONOMIC AND COMMERCIAL CENTER OF THE MEKONG DELTA. OFFICIAL GVN STATISTICS, WHICH ARE PROBABLY INFLATED, POINT TO ECONOMIC GROWTH AVERAGING 8% OVER THE PAST 5 YEARS, REACHING AN IMPRESSIVE 9.65% IN 2001. EVEN IF THESE NUMBERS ARE OPTIMISTIC, CAN THO IS EXPERIENCING STRONG, STEADY ECONOMIC GROWTH. BASED ON A VISIT BY CONGENOFFS TO THE PROVINCE LATE LAST YEAR AND IN SUBSEQUENT CONVERSATIONS WITH LOCAL OFFICIALS AND BUSINESS PEOPLE, IT APPEARS THAT CAN THO IS COUNTING ON INFRASTRUCTURE DEVELOPMENT AND STATE-OWNED ENTERPRISES (SOES) TO KEEP THE ECONOMY GROWING.

BUT ALMOST NO FOREIGN INVESTMENT

3. THIS GROWTH HAS NOT BEEN DUE TO FOREIGN DIRECT INVESTMENT (FDI), WHICH HAS BEEN DISMAL. TOTAL IMPLEMENTED
UNCLASSIFIED

PAGE 03 HO CHI 00154 01 OF 02 210957Z
FOREIGN CAPITAL AMOUNTS TO ONLY ABOUT \$55 MILLION FOR THE ENTIRE PROVINCE OVER THE LAST TEN YEARS. THIS COMPARES TO MORE THAN \$4.8 BILLION FOR HO CHI MINH CITY DURING THE SAME PERIOD.

4. TOURING THE SLEEPY TRA NOC INDUSTRIAL ZONE JUST OUTSIDE CAN THO CITY, CONGENOFFS SAW VEGETABLES GROWING ON LAND WHERE IT WAS HOPED THAT FOREIGN COMPANIES WOULD BUILD PRODUCTION FACILITIES. TO BE FAIR, LOCAL OFFICIALS CLAIM THAT THE THREE INDUSTRIAL PARKS IN THE PROVINCE EMPLOY ABOUT 10,000 PEOPLE, AND A THAI-OWNED SEAFOOD PROCESSING PLANT AND A TAIWAN-INVESTED NAIL FACTORY WERE LOCATED IN THE IZ. MORE NOTEWORTHY, HOWEVER, WERE THE WIDE-OPEN SPACES.

5. WHEN CONGENOFFS POINTED OUT ONE GLEAMING BUILDING IN THE PARK AND ASKED WHAT IT WAS, THE DIRECTOR OF THE AUTHORITY GRIMLY REPORTED THAT IT WAS A CUBAN-INVESTED RAT POISON FACTORY THAT HAD NOT PAID ITS RENT FOR MORE THAN A YEAR AND A HALF. HE WENT ON TO STATE THAT DUE TO CUTS IN THE COST OF LAND RENTS AT THE IZ, THE GOVERNMENT AUTHORITY RESPONSIBLE

FOR MANAGING THE SITE COULD NO LONGER AFFORD TO EFFECTIVELY
ADVERTISE AND MARKET TO PROSPECTIVE TENANTS.

POOR TRANSPORT MAY IMPROVE A BIT

16. ONE PROBLEM IN ATTRACTING FDI HAS PROBABLY BEEN CAN
THO'S POOR TRANSPORTATION INFRASTRUCTURE. THE PROVINCE HAS
NO AIR OR RAIL SERVICE. TRAVELING BY ROAD FROM HCMC TAKES
3.5 TO 4 HOURS AND REQUIRES A FERRY CROSSING. THE ROAD IS
FILLED WITH EVERY KIND OF CONVEYANCE IMAGINABLE, AND BRIDGES
POP UP EVERY MILE OR SO, AND THEIR ABRUPT SLOPES UP AND DOWN
UNCLASSIFIED

PAGE 04 HO CHI 00154 01 OF 02 210957Z
MAKE FOR A BOUNCY - OR BONE JARRING - RIDE DEPENDING ON YOUR
POINT OF VIEW. PORT FACILITIES ARE ALSO LACKING. THE RIVER
CHANNELS AND LOCAL PORTS CAN ONLY ACCOMMODATE SHIPS OF UP TO
10,000 TONS, WHICH LIMITS WHAT CAN BE CHEAPLY SHIPPED IN AND
OUT OF THE CITY. MOST OF THE SEAFOOD AND AGRICULTURAL
PRODUCTS ARE NOW TRUCKED UP OR FLOATED UP ON SMALLER BARGES
TO HCMC WHERE THEY ARE THEN TRANSFERRED TO OCEAN-GOING
VESSELS.

17. PROVINCIAL OFFICIALS, HOWEVER, POINT OUT THAT WITH
SEVERAL PROJECTS UNDERWAY, TRANSPORT LINKS ARE IMPROVING.
JAPAN IS FINANCING A \$400 MILLION BRIDGE TO SPAN THE HAU
RIVER, WHICH WILL ELIMINATE THE NEED FOR A FERRY CROSSING ON
THE ROAD TO HCMC. THE BRIDGE SHOULD BE COMPLETED IN 2006.
LOCAL OFFICIALS STATE THAT CIVIL AIR SERVICE WILL START UP
AGAIN IN THE THIRD QUARTER OF THIS YEAR, BUT ONLY WITH
FLIGHTS TO/FROM HANOI. MORE IMPORTANTLY, THE WORLD BANK IS
FINANCING MOST OF AN \$80 MILLION PROJECT TO EXPAND PORT
FACILITIES AND WIDEN THE RIVER CHANNEL TO ALLOW LARGER BOATS
TO REACH CAN THO.

WHERE ARE ALL THE FOREIGN INVESTORS?

18. TRANSPORTATION IS NOT CAN THO'S ONLY PROBLEM. THE
PROVINCE HAS FACED A RUN OF BAD LUCK - WHICH SOME WOULD SAY
IS SELF-INFLICTED - WHEN IT COMES TO ATTRACTING FDI. OF
COURSE, CAN THO HAS HAD SOME SUCCESSES WITH FOREIGN
INVESTORS, INCLUDING AMERICAN ONES. AMERICAN INTERNATIONAL
GROUP OPENED AN OFFICE THERE LAST YEAR, AND THEY CLAIM IT
HAS BEEN WILDLY SUCCESSFUL. CARGILL ALSO HAS A SMALL FEED
MILL HERE. BUT SOME OF THE PROVINCE'S FAILURES HAVE BEEN
SPECTACULAR. ONE OF THE MOST FAMOUS IS THE NOW DEFUNCT
AMERICAN RICE, WHICH PRODUCED INSTANT RICE FOR EXPORT.
AFTER FOUR YEARS OF BATTLING WITH ITS LOCAL PARTNER, THE
FIRM FOLDED IN 1998. THE COMPANY'S EXPERIENCE IN CAN THO HAS
BEEN WRITTEN UP IN A CASE STUDY THAT IS USED IN BUSINESS
SCHOOLS THROUGHOUT THE UNITED STATES. CAN THO MADE THE NEWS
AGAIN IN 1999 WHEN PEPSI SIGNED A LEASE TO BUILD A NEW
BOTTLING PLANT AT THAT SAME SLEEPY INDUSTRIAL ZONE OUTSIDE
THE CITY. AFTER PEPSI BEGAN PURCHASING EQUIPMENT AND MAKING
IMPROVEMENTS ON THE LAND, ITS BUSINESS LICENSE WAS
SUSPENDED, APPARENTLY TO BENEFIT A WELL-CONNECTED LOCAL
BOTTLING CONCERN. PEPSI NEVER BUILT THE PLANT.

19. WHEN ASKED ABOUT FDI IN MEETINGS WITH CONGENOFFS, LOCAL
OFFICIALS SEEMED TO DWELL ON THE PROVERBIAL "ONE THAT GOT
AWAY" (WHICH VARIED FROM INTERLOCUTOR TO INTERLOCUTOR):

--THE AMERICAN COMPANY THAT PROMISED TO TURN LANDFILL
GARBAGE INTO FERTILIZER - AND DID NOTHING,

-- A PROPOSED BELGIAN PRESSED WOOD PLANT THAT NEVER GOT OFF
THE GROUND,

UNCLASSIFIED

PAGE 03 HO CHI 00154 02 OF 02 210957Z

--A FRENCH FOOD PROCESSING COMPANY THAT NEVER ACTUALLY
FOLLOWED THROUGH ON PLANS TO START A PROJECT HERE, AND ETC.

THE OFFICIALS APPEARED CONFUSED ABOUT HOW TO KEEP THIS FROM
HAPPENING AGAIN.

SOES TO THE RESCUE!

110. OFFICIALS SEEMED MUCH MORE COMFORTABLE TALKING ABOUT
SEVERAL PROJECTS WITH SOE'S TO STIMULATE EXPORT GROWTH.
ACCORDING TO THE DEPARTMENT OF PLANNING AND INVESTMENT, THE
PROVINCE IS TRYING TO LURE VINATEX, THE COUNTRY'S STATE-
OWNED TEXTILE CONGLOMERATE, TO OPEN TEXTILE PRODUCTION IN
THE PROVINCE AS WELL AS WORK WITH LOCAL FARMERS TO RAISE
COTTON IN LIEU OF "LESS EFFICIENT CROPS." VINAMILK, ANOTHER
SOE, IS ALSO WORKING WITH FARMERS TO RAISE DAIRY COWS TO
SUPPLY A LOCAL MILK FACTORY. SONG HAU FARM, THE HIGHEST
GROSSING AND MOST PRODUCTIVE STATE-OWNED FARM IN THE
COUNTRY, EMPLOYS MORE THAN 10,000 PEOPLE AND PRODUCES A
VARIETY OF AGRICULTURAL PRODUCTS FOR EXPORT AND LOCAL
MARKETS.

111. ONE OF CAN THO'S MOST NOTABLE SUCCESS STORIES IS THE
SEAFOOD PROCESSOR CAFATEX, WHICH IS AN SOE OWNED BY CAN THO
PROVINCE. THIS YEAR THE COMPANY PLANS TO PRODUCE 10,000

TONS OF SHRIMP AND 3,000 TONS OF FISH FOR PRIMARY MARKETS INCLUDING THE UNITED STATES AND JAPAN. THE COMPANY CURRENTLY EMPLOYS OVER 5,000 PEOPLE AND IS EXPANDING.

COMMENT

UNCLASSIFIED

PAGE 04 HO CHI 00154 02 OF 02 210957Z

112. ALTHOUGH CAN THO HAS BEEN ABLE TO TURN IN A ROBUST ECONOMIC PERFORMANCE OVER THE LAST FEW YEARS, IT IS UNLIKELY TO CONTINUE THIS LEVEL OF GROWTH WITHOUT INCREASING FDI. PLANNED INFRASTRUCTURE IMPROVEMENTS MAY OFFER ADDITIONAL INCENTIVES, BUT IT IS UNCLEAR WHETHER THEY WILL BE SUFFICIENT TO DRAW INVESTMENT TO CAN THO. THERE ARE SOME KNOWLEDGEABLE, CAN-DO OFFICIALS, BUT THEY ARE SCATTERED THROUGHOUT SLOW-MOVING DEPARTMENTS WITH FEW RESOURCES AT THEIR DISPOSAL. AT LEAST FOR NOW, THE OVERALL LOCAL LEADERSHIP SEEMS TO BE WAITING FOR FDI TO COME COURTING CAN THO, RATHER THAN REALIZING THAT THERE IS LOTS OF COMPETITION THROUGHOUT THE SOUTHEAST ASIA REGION FOR THE FDI DOLLAR. AS A RESULT, THE MEKONG DELTA'S POTENTIAL TO ATTRACT FOREIGN INVESTORS GOES LARGELY UNNOTICED AND UNTAPPED.
YAMAUCHI

UNCLASSIFIED